19

1974-1978: Operation Lifeboat

The Bank of England lent credence to the fashionable idea that Arab oil price increases were responsible for the recession that struck the world economy in 1980. Along with the Organisation for Economic Cooperation and Development,[1] it noted how low industrial profits had 'recovered only modestly from the very low level to which it sank after the 1973-4 "oil crisis"', and that cost pressures on industry — and particularly the rapid rise in oil prices — had squeezed the finances of industry.[2]

The reasoning that led to the wrong conclusion on such a vital issue may be excusable in journalistic writings, which require drama to flavour the harsh facts, but it is indefensible in what purports to be serious economic analysis. The Bank did not intend to mislead; but without knowing it, the Old Lady of Threadneedle Street *did* have something to conceal. For, along with others, she had directly contributed to a configuration of forces that prevented the British economy from recovering, and thereby helped to transform what would otherwise have been a short and sharp recession into an unnecessarily prolonged economic disaster spanning the decade and reaching into the 1980s.

A similar misdiagnosis of the problem in Washington led ultimately to policies that distorted the US economy. The orthodox perceptions of the problem by the politicians and their advisors misled them on the nature of the difficulties confronting consumers and entrepreneurs.

On January 30, 1980, President Jimmy Carter submitted his Economic Report to Congress, in which he declared that Britain and the US would be the only important Western economies to plunge into recession during the following 12 months. Blame for Britain's sharp decline was attributed to the tight financial policy pursued by Prime Minister Margaret Thatcher. The report declared:

> The UK's fall in output does not derive principally from the rise in oil prices but from the very sharp shift towards restrictive monetary and fiscal policies instituted by the new government.

There are problems with this analysis. For the UK economy started its downward slide before Mrs Thatcher came to power; her disciplined monetary policy did not *cause* the recession. The Thatcher strategy was to reduce the rate of inflation, not deal with low productivity and unemployment. In any event, by the end of 1980 the financial authorities on both sides of the Atlantic were forced to concede that their attempts to restrict the growth in the money supply to target levels had failed.[3] The recession, therefore, could not be blamed on tight monetary policy.

The turning point in Western economic fortunes was 1978, the year in which, in Britain, all the outward signs pointed to a hopeful recovery. Average earnings remained stable through to late 1979, and the Treasury's index of unit labour costs (the measure used to gauge the relative international competitiveness of British labour) remained constant around 94.0 throughout 1978, not rising significantly until the spring of 1979 (second quarter: 110.9).[4] Interest rates were also tolerable; they had not taken off to the 76 record heights achieved in 1980. Yet the foundations of the economy began to buckle under some apparently irresistible strain. Why?

Before looking at the facts, we need to recall the theory of the 18-year cycle in land values. In previous structural recessions, land values collapsed heavily. 1978 This facilitated the subsequent recovery, by readjusting the distribution of income among the factors of production. Rental payments were reduced to a level consistent with the true economic surplus of the economy, and there was little point in speculating in the selling price of land unless one were willing to tie up funds for 10 to 15 years. As a result, investors were attracted by the increased yields accruing to capital: this led to fresh investment, new jobs, and the engine of economic growth restarted itself, with the cycle in land values beginning at the low point and making its way back to a peak 18 years later.

This time, however, something unique happened. Following the 1973/74 collapse at the end of the previous cycle, land values recovered rapidly, reaching their 1973 speculative peaks within five years *and during a period of on-going recession*. So the shake-out which is the usual prelude to fresh economic growth was stopped dead in its tracks. The evidence on the distribution of wealth and national income endorses this explanation, viewed in terms of yields from assets, capital values and the distribution of the national product.

Initially, rents and land values declined in all sectors — agriculture, retail, industrial and residential. This facilitated the process of setting up new industries and expanding commerce. Employees were left with larger net disposable incomes, which meant that the consumer market could expand.

Then, industrial profitability started to recover on a world-wide basis. In Britain, profit shares (see Table 9:IV, page 126) rose from 10% in 1975 to 19% in 1977; net rates of return rose from 3.5% to 8% in the same period. *The industrial economies were set on a new course of sustained growth which, on the basis of historical experience, ought to have continued for 18 years.* Something went wrong, however, and this new lease of economic life was suddenly stillborn: the economy returned to the recession from which it was never effectively released.

OPEC was quickly singled out as the 'fall guy', but this interpretation is implausible on *timing*. Oil producers grew increasingly angry when they saw Western oil companies boosting their profits by selling crude oil on the Amsterdam spot market at rates much higher than they had bought it for. By November 1979, the official price for Arabian light oil (the grade used as a reference for price fixing by OPEC) was still $18 a barrel, when large volumes were sold on the spot market for $40-50 a barrel to buyers who evidently considered that consumers were willing and able to pay much more than the rates determined by OPEC. So official OPEC prices were pushed up. But the rise did not begin until the second quarter of 1979. In fact, since the major price rises early in 1974, the cost of oil in relation to manufactured goods had declined. From 1976 onwards, UK consumers were paying *less* for crude oil, in real terms. Allowing for a three-month time-lag before the rises fed through into higher prices in the shops, the impact of the new oil price rises would not have been felt until the third quarter of 1979. Yet the profitability of UK companies peaked one year earlier, in the third quarter of 1978, and then started sliding rapidly. Over the 12 months from mid-'78, the real pre-tax rate of return on net trading assets fell from 5.9% to 4.1%[5]—sliding on down to the 3% level achieved in the trough of the 1975 slump. Gross domestic fixed capital formation fell in the last quarter of 1978. Companies sank into the red to the tune of £2.5bn. in the first half of 1979, which the Bank of England considered to be a possible under-estimate.[6]

As in 1973/4, therefore, OPEC can be absolved from playing anything but a secondary role in recession. Its influence through the price level began *after* the grand slide into the trough.

The economic downturn that began in late 1978 was blamed by the Treasury on 'bad weather and industrial disputes',[7] an explanation that neatly accommodated the twin British pastimes of blaming the natural elements and trade unions for all the country's problems. This assessment, however, was as reliable as the daily weather forecast in a temperate climate. We have to seek our answer in more fundamental economic analysis, not least because the consumer confidence that affects profits in the High Streets began spiralling downwards earlier in 1978.[8]

A starting point for our investigation is to consider the level of rents and land values at the end of the last cycle. These, as can be seen from Table 19:I, made an unprecedented recovery. After sliding through what transpired to be

TABLE 19:I

Recovery of the UK Land Market, 1972-1979

Housing	Land: price per plot[1]	House-price/ earnings ratio[2]	*Commercial rents*[3]	Shop	Office	Industrial	*Agriculture*[4] England		
	1975 = 100			1965 = 100			1973 = 100		
1972	94	—	1972	150	155	116		*1978*	*1979*
1973	146	4.11	1973	178	123	135	Jan.	131	199
1974	145	3.47	1974	180	217	152	Feb.	132	205
1975	100	3.17	1975	152	171	138	Mar.	137	212
1976	100	3.08	1976	142	143	131	Apr.	142	205
1977	106	3.04	May '77	131	124	123	May	144	208
1978 1st half	118	3.39	Nov. '77	136	123	124	June	149	213
2nd half	142		May '78	145	126	123	July	157	213
1979 1st half	168	3.74*	Nov. '78	156	128	126	Aug.	160	214
2nd half	202		May '79	165	130	132	Sept.	165	216
			Nov. '79	163	125	130	Oct.	167	220
							Nov.	177	221
							Dec.	192	222

* Estimated

1 Dept. of the Environment
2 *Housing Trends: Fourth Quarter 1979*, London: Nationwide Building Society.
3 *Investors Chronicle/Hillier Parker Rent Index*, No. 5, Nov. 1979. Adjusted for inflation.
4 ADAS/AMC: sales of 5 hectares and over with vacant possession.

a shallow trough (1975-6), they recovered with breath-taking speed: and *they reached the historically high 1973-4 levels within two years, i.e., in the second half of 1978.*

The recovery in the price of a plot of land for house building in the second half of 1978 to the speculatively high 1973 level was disastrous. It arrested the decline in the houseprice/earnings ratio. What happened in the following 12 months was quantified by Tom Baron, a former advisor on housing to the Conservative Party and Chairman of Christian Salvesen Properties. House buyers paid out over £1 bn. more than they would have done had the flow of land onto the market been responsive to the needs of consumers.[9] Compared with 1970, every new house cost £2,000 more than it ought to because land values had been forced up by the scarcity of building plots. About 350,000 first-time purchasers were affected, paying an average of £1,600 more than they need have done. About 575,000 owners moving to their second homes gained from the increased price of their first houses, but even so they paid an average of £800 more than they would have done if there had been no artificial land shortage. Thus, a staggering slice of consumer power was shifted away from shops. Retailers in turn, cut back their purchases from the factories. Entrepreneurs, finding themselves with growing stockpiles in the warehouses, cut back on their investment programmes — all at the expense of the level of employment.

The artificially-inflated house prices, however, did not benefit the construction firms and their craftsmen. Wage-earners found it increasingly difficult to buy homes at the ruling prices. So from 1978, fewer private-sector houses were built. The importance of the construction sector in the national economy has already been stressed. In Britain in the late 1970s it was the largest industry whether measured in manpower or output. Apart from the 1.25m. directly employed in the industry, hundreds of thousands more were indirectly involved through the production of materials, equipment or services. In output, construction represented about 11% of GNP. So a deterioration in the well-being of this one sector — over 300,000 construction workers were unemployed in 1981 — had a deep-seated influence on the rest of the economy.

Commercial rents also recovered remarkably well. Office rents, especially in London and the south-east, exceeded the previous peak levels in current prices, while shop and industrial rents matched the 1973 levels. The figures, however, do not give the full picture for industry and commerce. For on top of the rents paid to landlords we have to take account of the effect of rates, the local property tax, on the outgoings from businesses. In the 19th century, these were both low and constant. They did not, therefore, contribute causally to the business cycle. This changed in the period following the Second World War.

Over the medium term, increases in rates (insofar as they fall on land values) are offset against rent demands in negotiations between landlords and tenants. In the short term, however — and especially within the framework of an uncompetitive land market — an accelerated increase in rates falls on the entrepreneurs who occupy the business premises. Under modern leases, rents are fixed for five years. Therefore, although rents are the major cost (there is a 60/40 ratio of rents to rates), a sudden increase in the growth of rates can in the short term impose a non-transferable burden of dangerous proportions in a time of economic instability.

In 1962, non-domestic rates as a percentage of gross trading profits (after deducting stock appreciation) were 12.8%.[10] The burden rose to 19.5% in 1973. In the face of an artificially restricted supply of land, the users of land could not fully compensate for this by negotiating down their rental payments to landlords. The collective rise in rents and rates hammered profits, resulting in the recession in 1974. Again in 1978, the recovery of profits was undermined by the rates burden combined with the rapid recovery of rental levels. Non-domestic rates as a percentage of gross trading profits in 1978 were 18.2%, rising to an estimated 27.3% in 1980. Rates on office blocks rose by an average of 26.%, well above the rate of inflation. Rates in London's office centres were about 43% of open market rents in 1980, whereas in 1973 they represented just over 20% of rent.[11]

Rates were predicted to rise by over 25% to £4.2bn. in 1980/81,[12] and while these were partly reflected in the slowdown in the rise of rental levels at the turn of the decade, the damage was already done. Profits (excluding North Sea oil activities) sank to around two to three per cent, and the rates burden (taken in conjunction with the level of rents) were isolated as a deterrent to the formation of new businesses, especially small firms.[13]

The recovery in land prices cannot be explained in terms of economic prosperity, for GNP growth rates were historically low. So what caused the artificial resuscitation? Initially, OPEC may have helped to cushion the drop in land values through its participation in the market during the early post '74 period when it enjoyed large financial surpluses. But their investments in equities, property, etc., in Britain declined to $400m. in 1977 and $100m. in 1978[14] the critical year from the viewpoint of general recovery. So the major explanation for the land phenomenon must be sought in domestic policies.

What we discover is a massive effort by the authorities to buoy up the value of assets held by landowners. This action created an unwarranted optimism in the land market which thwarted the adjustments in the income distribution which were vital for long-term recovery. The land market was set to collapse by early 1974 in the way that it had traditionally done after a speculative orgy. But the Bank of England, towing along the main High

Street banks, floated a £1.3bn. 'lifeboat' operation to support the fringe banks that had helped to fuel the speculation. Twenty-six fringe (or 'secondary') banks were thrown financial life-lines, and subsequently only eight of them went into liquidation. Had they all gone bust, many more property companies would have sunk with them. The market would have been flooded, and land values would have been depressed to economically realistic levels. The financial authorities were not willing to let this happen, however. They acted swiftly to provide the cash resources that were needed by the speculating institutions to satisfy creditors.

The politicians played their part, too. Harold Wilson's government spent millions of pounds of taxpayers' money on the inner cities, which inflated the expectations of landowners — both private individuals and public corporations — and encouraged the hope that land prices would rapidly recover. They did — with a vengeance!

A similar configuration of banking and political policies aimed at camouflaging the property market were at work in the USA. The Federal Reserve encouraged the banks to support the REITs, whose shaky foundations would otherwise have swallowed many more of them.

'Instead of selling at today's distressed values,' said Campbell in an address to the Economic Society of South Florida on December 8th, 1975, 'REITs tend to hold on to the problem assets until "true value" asserts itself. So both banks lending agreements and REIT psychology is preventing the diffusion of these problem loans through the economy.'[15] Campbell estimated that in 1976 there were over 80,000 'distressed' condominium units in the hands of REITs alone, and that they were overpriced by about 25% in the market as it existed in its post-boom condition. But because of the support from the banks, they were able to hold out for the prices which they had set during the heady days of the boom.

The banks that were forced to repossess properties sold some of these off in the market. 'If they were suddenly dumped onto the market en masse, they would push a reeling real estate industry into complete disaster,' noted Thomas. So, cannily, 'the business of unloading and buying distressed properties is being conducted in the most discreet way possible.'[16]

Washington felt obliged to make its contribution. In 1976, the politicians stepped in with their Tax Reform Act, which made REITs attractive as tax shelters.[17] This drew money into what should have been a depressed property market — money which would otherwise have been spent on capital goods or consumer products.

Policies with a similar logic but with local variations contributed to the recovery of landowners' income all over the Western world. In France, for example, the government decided to de-control housing rents in 1978; rents doubled and tripled. In Australia, the slump in land values in 1974 was mitigated when government funds available for land acquisition and development were raised in 1975/6 to A$130m.[18]

This global rescue operation amounted to the public being forced to underwrite the risks of the losses that might have been incurred by land speculators. The rapid revival in values brought unexpected fortunes. And it was not just the bare surface of sites that were sold. In New York, property owners sold the air space above relatively low-rise buildings to their neighbours for large sums. Tiffany's, famous as a store selling luxury goods, sold its 'air rights' over its 10-storey building in Fifth Avenue to a property developer who wanted to build a skyscraper on an adjoining site. Tiffany's transferred its rights to build into air space for $5m., a get-rich-quick technique that became popular in the late 1970s.[19] In July 1980, Pan Am agreed to sell its 59-storey building in New York for about $400m., the largest real estate deal for a single building in recorded history. At the same time, in London, British Petroleum clinched another record deal by agreeing to pay £93m. for a property in the City, which on a per-square-foot basis was even greater than the Pan Am deal.

But if the politicians and bankers wrote out the insurance policies that protected the speculators, the premiums were paid by consumers and industrialists in the form of reduced spending power and fewer jobs. The detailed elements of the crisis were visible for anyone to perceive, as a closer look at the UK economy will demonstrate.

Consumers found that, by 1978, instead of being able to expand consumption, their household budgets were hit by having to spend a growing proportion on mortgage repayments and rent. House prices rose twice as fast as consumer prices, and out-paced the increase in personal disposable incomes. The consumer market contracted.

As early as January 1978, housebuilders identified the shortage of reasonably priced land as the major constraint on output. By April, 87% of the firms surveyed by The House-Builders Federation placed this problem at the top of their list, far out-stripping difficulties posed by labour shortages and planning obstacles.[20] The Department of the Environment continued to insist that, based on a study of land with planning permission, land was in ample supply. But an official study of land availability in Greater Manchester revealed that, of the 27,500 plots originally thought to be available over a three-year period, only 17,200 (62%) could in fact be developed. And one of the obstacles to achieving the rate of output to which the builders aspired was identified by their Federation in these terms:

> Ownership problems reduce production, particularly in areas of shortage which experience rapidly rising land prices. Land owners have no

incentive to sell quickly, and developers tend to eke out land stocks when replacements are uncertain.[21]

The estimates of plots of land with planning permission for housing owned by builders stood at about 336,000 in 1977. The stocks slumped to 290,000 (1978), 286,000 (1979) and about 220,000 in the first half of 1980.[22]

Business was good for the speculators, however, and industrial land was one of their targets. For example, attempts to revive Britain's inner cities with expanded output and improved living conditions was proving a failure: firms still wanted to move out. This afforded opportunities to speculators, who were willing to pay well over £300,000 an acre, and in some cases close to £400,000 an acre, for prime locations. 'This reflects an institutional and developer orientated interpretation of the demand from companies within the Inner Cities, wishing to relocate', reported a firm of surveyors and valuers. 'It is widely assumed that these companies are now prepared to stomach higher rentals than those which were traditionally charged.'[23]

For companies which found their profits diminishing, and employees who faced the threat of unemployment, the prospects were not so rosy. Official indicators failed to give early warning of what was happening, which is not surprising since they failed to take account of the dominant variable: land values. Thus in Washington, the policy-makers failed to take remedial action in time precisely because they did not know what was happening under their feet.

In September 1979 an economist at the Commerce Department admitted that Washington's index of leading economic indicators had to be used with caution. He said: 'The leading indicators index underwent its baptism of fire this year. It didn't give us a real good indication we were sliding into a recession... We got fooled.'[24] Throughout 1978 the index predicted continuing economic activity, effectively disguising the underlying adjustments which were portents of troubled times to come. During the year, the number of bankruptcies — which had steadily declined over the previous two years — started an upward climb on the graph. Faced with enormous increases in land prices, the house-building industry slowed down its rate of production before collapsing early in 1979. The speculators, however, were not deterred, and there was no shortage of advice for prospective dealers of a do-it-yourself sort.[25]

Consumption continued at a high level, but this was in part attributed to the willingness of income-earners to raise billions of dollars by borrowing against the increased value of their properties: home mortgage increases rose from an annual rate of \$20-25bn. in the early 1970s to over \$100bn. by the end of the decade.[26]

But while purchases of durable goods for the home continued to rise in

1979, consumption of non-durables, and cars, started their downward spiral. It was not until the second half of 1979 that the smoke signals went up. The *Wall Street Journal*, noting the decline in corporate income, asked: 'How are the gaps in saving and investment going to be filled so that economic growth can continue?'[27] *Business Week* headlined its analysis (September 19, 1979): 'An eerie resemblance to 1974'.

The anxieties that emerged in mid-'79 were not shared in California, where the State's business and political leaders believed that they were sheltered from the storm clouds which were passing by. The buoyant real estate market fostered the feeling that the sun would continue to shine through. But land values bore no relation to real economic growth. Productivity grew at a pitiful 1.1% p.a. between 1973-78. 'Most Californians reinvest their housing profits in more real estate, adding to the price spiral,' reported the *Wall Street Journal*. 'But coming up with a down payment is just half the problem. Meeting monthly payments has also become a struggle, with home prices so high and interest rates often at more than 11%.'[28]

The 1976 Tax Reform Act had increased the attractions of real estate as a tax shelter, and money poured into this sector of the Californian economy from people anxious to reduce tax liabilities and concurrently stake a claim to a future fortune.

Where criticisms were levelled at land speculation these were directed at a convenient target: the foreigners.[29] The continuing slide in the value of the dollar did give foreign buyers a bidding edge over American land speculators. It is also true that they were dislocating the economy. In Los Angeles, for example, some locally owned businesses in the downtown area were being shut down by 'skyrocketing lease rentals and land costs'.[30] But land speculation and artificially inflated land prices, if they have the ability to disrupt an economy, will do so irrespective of the nationality of the person whose name goes down on the contracts. California did not escape the recession as was augured by the drop in construction from July 1979. Observers drew the connection between rising land costs, escalating prices of houses, and the cutback in the rate at which poorly-housed people could secure decent homes. But as ever, the blame was shifted away from the true causes, and onto convenient whipping boys like 'Government red tape'.[31]

In Britain, the danger signals were not flared until the meeting of the National Economic Development Council in August 1979. Sir Keith Joseph, the Secretary of State for Industry, submitted a departmental paper warning of the low rate of profitability. This document claimed that 'it is impossible to demonstrate beyond any doubt the causes of the UK's declining profitability',[32] although Sir Keith himself had little personal doubt as to the causes of the problem. Three days earlier, in a radio interview, he listed six 'poisons', and principal among these were a politicised trade union movement and the state institutions that had emerged to ameliorate the condition of the working class.[33]

While people began to brace themselves for an increase in unemployment, asset-holders were busily switching into land. Firms that needed to increase investment — and therefore productivity — were rapidly starved of funds. This was quickly recognised: the warning came from the Bank of England,[34] the NEDC[35] and data released by the Central Statistical Office.[36]

The Confederation of British Industry accurately predicted a downturn in the real rate of return to 3%, with the concomitant depressing effect on investment and the creation of new jobs.[37] But the purchasers of industrial and warehouse sites were not so pessimistic about their prospects. It paid to invest in the soil under the factory rather than in the machines upon it. For gross trading profits of industrial and commercial companies (after deducting stock appreciation) was down £261m. in the first quarter of 1979 compared with the same period in the previous year, whereas rent and non-trading income was calculated by the Treasury to have risen by £230m.[38] Thus, investors who accepted the recommendations given by advisors in the property world and switched to land,[39] helped to buoy up prices at levels which were unrealistic within the framework of a depressed economy.

One of the heaviest class of borrowers was the farming sector, whose indebtedness rose to £2.5bn. by August 1979. The money went mainly into the purchase of land, the rapidly rising value of which proved an attractive security to the banks. This indebtedness was then used by the agricultural lobby to press for further tax concessions. Their case was exposed by Alister Sutherland, the director of economic studies at Trinity College, Cambridge.

> In agriculture the increase in the already high capital intensity reflects the *increased* earning capacity of each acre; and the fact that the *same* net profit in total can now be achieved on fewer acres. Contrary to what happens in other industries, a low yield happens in agriculture because the net income (rent) prospects are high, and *not* because the replacement cost of man-made machinery is high relative to the profit that can then be earned by using that machinery. That is, far from any increase in the capital intensity of agriculture reflecting a struggle to maintain competitiveness against new production employing capital intensive techniques in other countries, the increase in the capital intensity in agriculture reflects the increase in protection given by the EEC agricultural arrangements, and by the tax advantages that flow from owning land. Consequently the 'low yield on assets' does *not* mean that the agricultural industry is hard pressed for cash. On the contrary, *it is just because the expected profit stream has risen (in relation to itself, but not of course as a percentage of 'capital')* that the yield is low.[40]

Sutherland challenged the conventional wisdom that agriculture was heavily in debt, and he pointed out that the returns to tenant capital — i.e. non-land assets — were not low. With remorseless logic, he pressed his case home to its conclusion:

> Thus in effect the UK consumer is being asked both to pay higher prices for food, and so, even allowing for farming cost increases, to generate higher farm profits: and then he is asked to release the farmer from the standard capital transfer tax consequences of the increases in farmer wealth that follow from those higher food prices.[41]

Sutherland's comments were in a report to the Northfield Committee of which he was an official adviser. The report was attacked by the National Farmers' Union and the Country Landowners Association, and it was not published as an appendix to the final document which was submitted to Parliament by the Committee.

In October 1979 the Wall Street stock market panicked, reviving memories of the great 1929 crash just 50 years earlier. The beginning of 1980 saw the world's industrial production at a zero rate of growth. The price of gold rocketed to unbelievable heights, and people queued up outside goldsmiths shops in London's Hatton Garden to sell off their rings and heirlooms.

How the economies fare will depend on a variety of factors. Will governments and the banking system allow land values and rents to decline to realistic levels? What will happen to the revived cash surpluses (estimated to be around $100bn. in 1980) held by OPEC countries? Will they flow rapidly into Western real estate, sympathetically reinforcing official policies in favour of land speculators? Whatever the answers, the politicians and institutions that influence the course of Western economic activity can be indicted for collaborating with the speculators to turn the 1970s into a repeat performance of the 1930s, that erea of economic horror that was supposed to have been eternally banished by Keynesian demand management.

But were the policy-makers the tools of the land monopolists? Culpability is supposed to depend on a conscious affirmation of the consequences of the decisions that are taken. A case study will help us to evaluate the process of policy formation, and it is to this that we now turn.

Notes

1 *Economic Outlook*, Paris: OECD, July 1979, pp.8-9.
2 Bank of England Quarterly Bulletin, Vol. 19, No. 3, Sept. 1979, pp.256-7.
3 The Conservative Government's monetarism is critically evaluated in *Monetary Policy*, Third Report from the House of Commons Treasury and Civil Service Committee, London: HMSO, 1981.

4 *Hansard*, 3.7.80, col 676.
5 Bank of England Quarterly Bulletin, Vol. 20, No. 2, June 1980, p.191.
6 *Ibid.*, Vol. 19, No. 4, Dec. 1979, p.366.
7 Economic Progress Report Supplement, Dec. 1979, London: HM Treasury.
8 D. Churchill, 'Growing mood of optimism', *Financial Times*, 19.8.80.
9 T. Stevens, 'Planning cost for house buyers', *Estates Gazette*, 20.9.80, quoting T. Baron, 'Planning's biggest and least satisfied customer: Housing', mimeo., Town and Country Planning Summer School, Exeter, 1980.
10 C.D. Foster, 'The Decline of Local Government', paper delivered to Association of Municipal Authorities' Conference, Manchester, 11.9.80, p.32, Table 12.
11 Debenham Tewson and Chinnocks, 'Office Rent and Rates 1973-1980', London, April 1980, p.9. At the same time Sir Horace Cutler, the leader of the Conservative-controlled Greater London Council, warned property owners that an insistence on 'excessive' rents would kill off the 'golden goose'—the millions of office jobs located in the capital. See M. Cassell, 'Rates burden gets heavier', *Financial Times*, 25.4.80.
12 Confederation of British Industry, 'Local Government Finance and Expenditure', London, C 30 80.
13 Coopers & Lybrand Associates Ltd., *Report on Non-Domestic Rates with Particular Reference to Small Firms*, London, 1980. The impact on the use of capital of a tax on buildings was tragically illustrated in 1982, a year in which the depression flooded the market with 168m. sq. ft. of vacant industrial floorspace in England and Wales. Industrialists were estimated by King & Co., a leading London estate agency, to be paying £60m. in rates on these empty premises (see P. Finch, 'King & Co optimistic on vacancy rates', *Estate Times*, 1.10.82). Some industrialists avoided this tax by destroying their buildings—10m. sq. ft. of space in the distressed Midlands alone (B. Phillips, 'Void rating lifts the roof', *The Times*, 13.9.82), and the national figure was probably double this amount. While making short-term financial sense for the individual entrepreneurs, this fiscally-induced destruction had serious consequences for both the waste of the existing capital stock, and the speed with which new businesses could be housed in premises once the economy had begun to recover.
14 Bank of England Quarterly Bulletin, Vol. 19, No. 3, Sept. 1979, p.276. Investments in the USA dropped from \$5.3bn. (1977) to \$3.1bn. (1978).
15 K. D. Campbell 'Issues and Interpretations', *Real Estate Review*, Vol. 6, Spring 1976, p.10.
16 D. L. Thomas, *Lords of the Land, op. cit.*, p.289. REITS adopted accounting practices to conceal the disastrous drop in the real value of their properties. See J.B. Levy, 'No Bargain Basement: REIT accounting Compounds the Risk for Investors', *Barron's* 13.6.77.
17 T.D. Englebrecht and J.L. Kramer, 'Tax Breaks for REITs Under the Tax Reform Act', *Real Estate Review*, Vol. 7, Spring 1977.
18 M. Neutze, 'Urban Land', in P. Scott, editor, *Australian Cities and Public Policy*, Melbourne: Georgian House, 1978, p.80, Table 5.1.
19 D. Lascelles, 'How Tiffany's made \$5m. out of thin air', *Financial Times*, 9.7.80.
20 The House-Builders Federation Press Notice, 31.8.79, Table VI.
21 *Study of the Availability of Private House-Building Land in Greater Manchester-1978-1981*, Vol. 1, London: DoE, n.d., p.17.
22 'Private enterprise Housebuilding', London: DoE. Press Notice No. 353, 28.8.80.

23 *Report on the Industrial Property Market*, London: Grant & Partners, July 1979, p.7.

24 G. Conderacci, 'Index of Leading Indicators Can Mislead, Commerce Department Economists Warn', *Wall Street Journal*, 4.9.79. Some real estate investment analysts, however, *were* alarmed early in 1978, and they said so. One of these was Charles Kirkpatrick (see 'A long wait for collapse', *The Tribune*, 19.8.79) and J.W. English and G.E. Cardiff, who published their predictions in *The Coming Real Estate Crash*, New Rochelle: Arlington House, 1979.

25 See, for example, G. Nicely, *How to Reap Riches from Raw Land*, Prentice Hall, 1978.

26 In 1978, aggregate US wealth came to $4.18 trillion, 51.7% of which was real estate. See 'The "Ultimate Index Fund"', *Fortune*, 3.12.79.

27 'Truth in Taxation', *Wall Street Journal*, 23.8.79.

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41 *Ibid.*, p.108.